



Celebrating 90 years of serving America

J.C. Penney Company, Inc.
1991 Annual Report

"The Golden Rule is a practical rule for business as it is for the business of living. If a man is willing to do unto others as he expects them to do unto him, he will find that, far from giving more than he gets, he will get more than he gives. I cannot remember a time when the Golden Rule was not my motto and my precept, the torch that guided my footsteps."



James Cash Penney, Founder
Chairman of the Board, 1917-1946, 1950-1958



The Penney Idea is a public declaration of the principles on which the J.C. Penney Company stands. Inspired by the Golden Rule, it was conceived and adopted in 1913 by our founding partners, a group of hard-working, self-made frontier merchants. Through the years, it has endured as the conscience and moral force of the Penney Company, guiding our associates in their relationships with one another, with our customers, with suppliers, and with the communities we serve. In this, our 90th anniversary year, we reaffirm our steadfast commitment to The Penney Idea.

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THIS IS JCPENNEY

JCPenney is a major retailer, with department stores in all 50 states and Puerto Rico. The dominant portion of the Company's business consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company markets predominantly family apparel, shoes, jewelry, accessories, and home furnishings.



THE PENNEY IDEA

Adopted 1913

To serve the public, as nearly as we can, to its complete satisfaction.

To expect for the service we render a fair remuneration and not all the profit the traffic will bear.

To do all in our power to pack the customer's dollar full of value, quality, and satisfaction.

To continue to train ourselves and our associates so that the service we give will be more and more intelligently performed.

To improve constantly the human factor in our business.

To reward men and women in our organization through participation in what the business produces.

*To test our every policy, method and act in this wise:
"Does it square with what is right and just?"*

TO OUR STOCKHOLDERS:

As we move into 1992, our 90th anniversary year, we are imbued with a sense of optimism. We believe that the clouds of economic uncertainty are lifting and that your Company is right on course for future sales and earnings growth. Our outlook reflects our substantially improved performance in 1991's fourth quarter as a result of critical adjustments in our merchandising and pricing.



These tactical maneuvers, which were carried out simultaneously with stringent expense control, were dictated by increasingly value-conscious consumers. They could not have been accomplished, however, without the diligence and total dedication of our Penney associates. On behalf of the Board of Directors, it gives me great pleasure to acknowledge their untiring efforts and to thank them for their dedication and commitment to JCPenney.

Fourth quarter income before nonrecurring items and the cumulative effect of an accounting change increased 46.0 per cent to \$301 million, or \$2.28 per share, from \$206 million, or \$1.55 per share, in the comparable 1990 period. JCPenney store sales for the quarter advanced 3.8 per cent to \$4.12 billion, while total Company sales rose 2.2 per cent.

For the 12 months ended January 25, 1992, income before nonrecurring items and the cumulative effect of an accounting change was \$528 million, or \$4.00 per share, as compared with \$577 million, or \$4.33 per share, in the same 1990 period. Sales for the year declined slightly to \$16.2 billion.

The Company's 1991 results reflect a one-time pre-tax charge to earnings of \$695 million, which had no significant effect on cash flow. Approximately one-half of this charge represents the cumulative effect on prior years of a change in accounting for post-retirement health care benefits. The balance of the charge represents other nonrecurring items. In effect, the Company began fiscal 1992 with a clean slate.

For JCPenney and the retail industry in general, 1991 presented a very challenging operating environment. On the surface, consumer confidence and spending were negatively affected by the Gulf War, the recession, unemployment, high consumer debt, lower interest income, and rising taxes. Also, beneath the surface, important changes were taking place in consumer attitudes.

Consumers have become more thrifty in the '90s, the result of increased economic concerns. For many, the struggle to stay even is replacing the struggle to get ahead. At the same time, increased importance has been placed upon quality of life, leisure time, and the home.

In this environment, there is a re-emphasis on the all-important word *Value* — which to the consumer means the right combination of fashion, quality, and price. The '90s also ushered in a renewed sense of individualism; consumers today are more self-assured and recognize that style is not necessarily synonymous with price.

Our merchandise offerings are now closely aligned with what today's shopper is looking for: a well-balanced mix of both basic value items and affordably priced fashion merchandise. Given a reasonable economic environment, we are confident that we will continue to experience a positive response from consumers in 1992.

Our expense structure was well managed in 1991, and we are positioned to gain considerable leverage as sales strengthen. An especially bright spot in 1991 was the performance of our insurance business, which achieved record levels of premium income and profitability. From a financial perspective, our balance sheet and cash flow remain strong.

Corporate governance matters have recently received prominent attention from investors and the media, and a discussion of these matters can be found on page 35 of this Report. We trust that this section will provide you with a better understanding of how our Company is managed and assure you of our continued attention to this important issue.

JCPenney marks its 90th anniversary in 1992. This milestone will be celebrated in our stores and facilities across the country. To commemorate the occasion in a special way, the Company's annual meeting of stockholders will be held in our founding city of Kemmerer, Wyoming, where Mr. Penney opened for business on April 14, 1902.

In today's volatile retailing environment, we believe that renewing the sense of vigor and freshness demonstrated by James Cash Penney in the founding of our Company is especially appropriate. Also, at a time when business ethics are often called into question, it is important to recommit to the principles upon which our Company was founded — *Honor, Confidence, Service, and Cooperation*.

Holding our annual meeting in Kemmerer will put us in touch with our roots in a very real way. It will also inspire our leadership with a fresh sense of determination to take your Company in the 21st century at least as far as we've come since our founding in 1902.

I would like to recognize four officers who have helped to guide JCPenney for many years and have now retired from the Company's service. They are Rodney M. Birkins, President of the Catalog Division; Robert O. Amick, Vice President and Controller; Joseph J. DeMelio, Vice President and Director of Insurance; and C. Kenneth Ogg, Vice President and Director of Operations, Services, and Inventory Management for JCPenney Stores. We wish them well and thank them for their contributions.

We extend our special thanks and appreciation to Juanita M. Kreps, who has retired from our Board of Directors after 19 years of service. Her experienced and valued business perspective will be missed. On February 12, we welcomed to the Board Charles S. Sanford, Jr., Chairman of Bankers Trust New York Corporation and its principal subsidiary, Bankers Trust Company.

Also, I would like to recognize, as I have in the past, the outstanding partnership we enjoy with our thousands of suppliers, many of whom have been working with us for well over half a century. Without their sincere partnership we cannot effectively and efficiently serve the wants and needs of our customers.

To you, our stockholders and investors, I want to reiterate my firm conviction that, having navigated successfully through rough times, we are collectively stronger and better prepared to serve the vast American public to its complete satisfaction. That's been our direction since 1902. It remains our direction. Thank you for your confidence and support.

Warmest regards,



William R. Howell
Chairman of the Board and
Chief Executive Officer
March 18, 1992

FINANCIAL HIGHLIGHTS (In millions except per share data)

| For the Year | 1991 | 1990 | 1989 |
|---|------------------|------------------|------------------|
| Retail sales | \$ 16,201 | \$ 16,365 | \$ 16,103 |
| Income before nonrecurring items | | | |
| Pre-tax | \$ 863 | \$ 832 | \$ 1,202 |
| After tax | \$ 528 | \$ 577 | \$ 822 |
| Per share | \$ 4.00 | \$ 4.33 | \$ 6.01 |
| Dividends per common share | \$ 2.64 | \$ 2.64 | \$ 2.24 |



A retail company's
success rides on
customer service.
JCPenney, official
sponsor and outfitter of
the 1992 U.S.A. Olympic
team, continues to grow
in its ability to provide
this business essential.
USA Olympic athletic
footwear and warm-up
suits.

TO SERVE THE PUBLIC

To James Cash Penney, service was as much a part of good business as quality merchandise. It was the source of the intangible good will and trust that brought satisfied customers back to his store again and again.

The way we do business has changed over the years — but not our commitment to customer service. To today's shopper, that commitment translates to finding real value: the right combination of quality, price, and fashion.

The Company sustains this key ingredient to retailing success through total dedication to excellence at every step of the merchandising process — from the creation of wanted products and compelling merchandise assortments to speedy buying transactions completed by knowledgeable associates.

Perhaps no element is more important to service than our unique Satisfaction Policy. Among department stores, only JCPenney offers coast-to-coast hassle-free merchandise returns at nearly 1,300 locations.

TO EXPECT A FAIR PROFIT

In a letter to a store manager, written in 1924, Penney President Earl C. Sams cautioned that the Company was not interested in gaining all the profit the traffic will bear. "There is a certain service that we owe to our community," said Sams, "and it is one of the fundamental services that we want to give, which is merchandise at a fair profit."

To provide consumers with their wants and needs at the best possible prices, Penney always has striven to make every step of the distribution process, from the purchase of merchandise to delivery to the customer, as cost-efficient as possible. Technology coupled with innovative merchandise replenishment programs has greatly aided us in this endeavor.



"Great business has discovered that growth and development and success are founded on the principle that the public must be taken into its confidence and be served with what it wants."

A stylized, cursive handwritten signature of Earl C. Sams.

Earl C. Sams
Chairman of the Board, 1946-1950

TO PACK THE CUSTOMER'S DOLLAR FULL OF VALUE, QUALITY, AND SATISFACTION

Mr. Penney himself set the standard by which the value and quality of all goods sold in his stores would be measured. On an early buying trip to New York City, he was found late at night, evaluating the colorfastness of fabrics he had scrubbed in his hotel room's washbasin. As to quality, he said, "If I don't know, why should customers trust anything I tell them?"

The Quality Assurance Center (QAC) helps today's Penney buyers gain that vital knowledge. Established in 1929, the QAC commands the most extensive quality assurance effort of any department store retailer. More than 37,000 items are painstakingly studied each year at the QAC in Carrollton, Texas. Everything from colorfastness to bursting strength is noted by some of the most sophisticated product testing equipment in the world.

Quality control increasingly begins at suppliers' facilities, where Penney field inspectors examine and evaluate factories and merchandise for compliance with the Company's meticulous standards.

Lasting relationships are
built on confidence.

Quality and value make

JCPenney a name

customers trust. Men's

sportcoat and trousers

from Haggar. Shirt and

shoes by Stafford,

coordinated outfit and

handbag by Jacqueline

Ferrar, shoes from

Rafferty, luggage from

Protocol, all exclusively

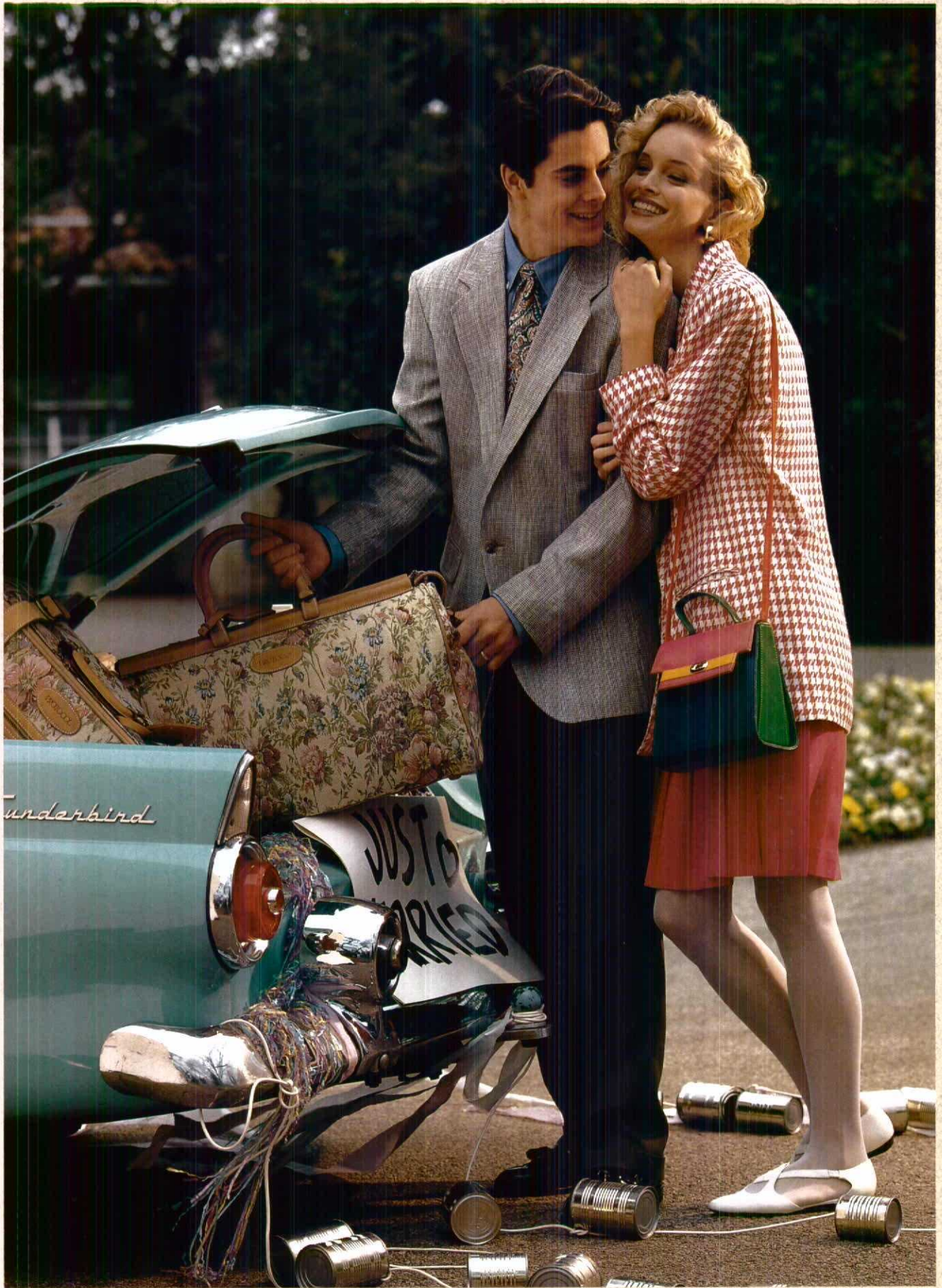
for JCPenney.

"I have dwelt at length on this third basic policy of Penney's, namely, 'to pack the customer's dollar full of value, quality, and satisfaction.' To me it represents a genuine contribution to the American customer and to the value of his dollar to the American standards of life."

Al Hughes

Albert W. Hughes
Chairman of the Board, 1958-1964







True success results
when education and
training are combined to
unlock full potential.
Blouse by AKF; earrings
by Citation. Two-piece
chambray dress by
Amy Too!

TO TRAIN OURSELVES

As Chairman of the Board, James Cash Penney devoted much of his time and effort to developing people who could lead JCPenney to further success.

"Our training ... is designed to increase self-respect, deepen self-confidence, multiply efficiency, and prepare people for wider responsibility," he said.

The Company continues to broaden Mr. Penney's vision of training and development. To meet today's business challenges, the Company has instituted one of the industry's finest management training programs. As part of this discipline, trainees begin on the selling floor, mastering the art of customer service as they learn how to merchandise. The Company also conducts an annual human resource review, a detailed assessment of the performance, potential, and developmental needs of all management associates. In this way, the position-by-position progress of our future leaders is carefully planned.

Each stage of our training programs is supported by extensive materials, videos, and instruction so that associates at every level can expand their abilities and contribute more to the progress of the Company.



"If a corporation is to succeed, one of its major responsibilities must be to provide a good climate for the personal growth of its people."

A handwritten signature in dark ink, reading "W M Batten". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

William M. Batten
Chairman of the Board, 1964-1974

TO IMPROVE THE HUMAN FACTOR

An enlightened business wants its people to care, to be involved, to contribute to the betterment of the world we live in.

"We told our store managers," said Mr. Penney, "that unless they knew their communities and unless they were prepared to enter sympathetically into community life, they could not make a success of their stores."

Through charitable contributions and community involvement at both corporate and local levels, JCPenney demonstrates its concern for community well-being and acknowledges its obligation as a corporate citizen.

The JCPenney Golden Rule Award program, established in 1982, recognizes the efforts of volunteers both nationally and in 150 JCPenney markets.

Special efforts have been made to nurture minority-owned businesses. As a result, we enjoy relationships with approximately 2,000 such suppliers. JCPenney also promotes opportunities within the Company. Through the establishment of groups like the Minority Advisory Team and Women's Advisory Team, the Company creates a climate for understanding and positive change at all levels of our business.

TO REWARD THROUGH PARTNERSHIP

The tradition of partnership began with Mr. Penney. He made the concept central to his organization, hiring individuals as assistant managers and offering them a one-third share in any stores they opened. They, in turn, trained others who opened still more stores. In effect, the Company became an organization that continually and rapidly renewed itself through partnership.

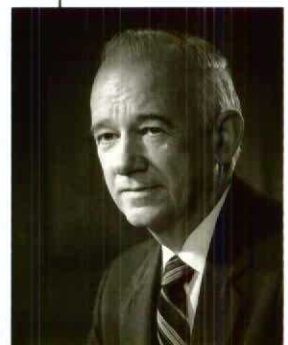
The Company later reorganized its financial and corporate structure. But the philosophy of partnership was preserved. The idea also was extended to headquarters people as well as to non-management associates throughout the Company in the form of a pension plan and a profit-sharing system.

Today, JCPenney boasts nearly 100,000 profit-sharing associates, each carefully trained to oversee a changing business in a constantly changing world.

"Today, more and more business people are coming to perceive the corporation as a social force with responsibilities that go well beyond simple economics."

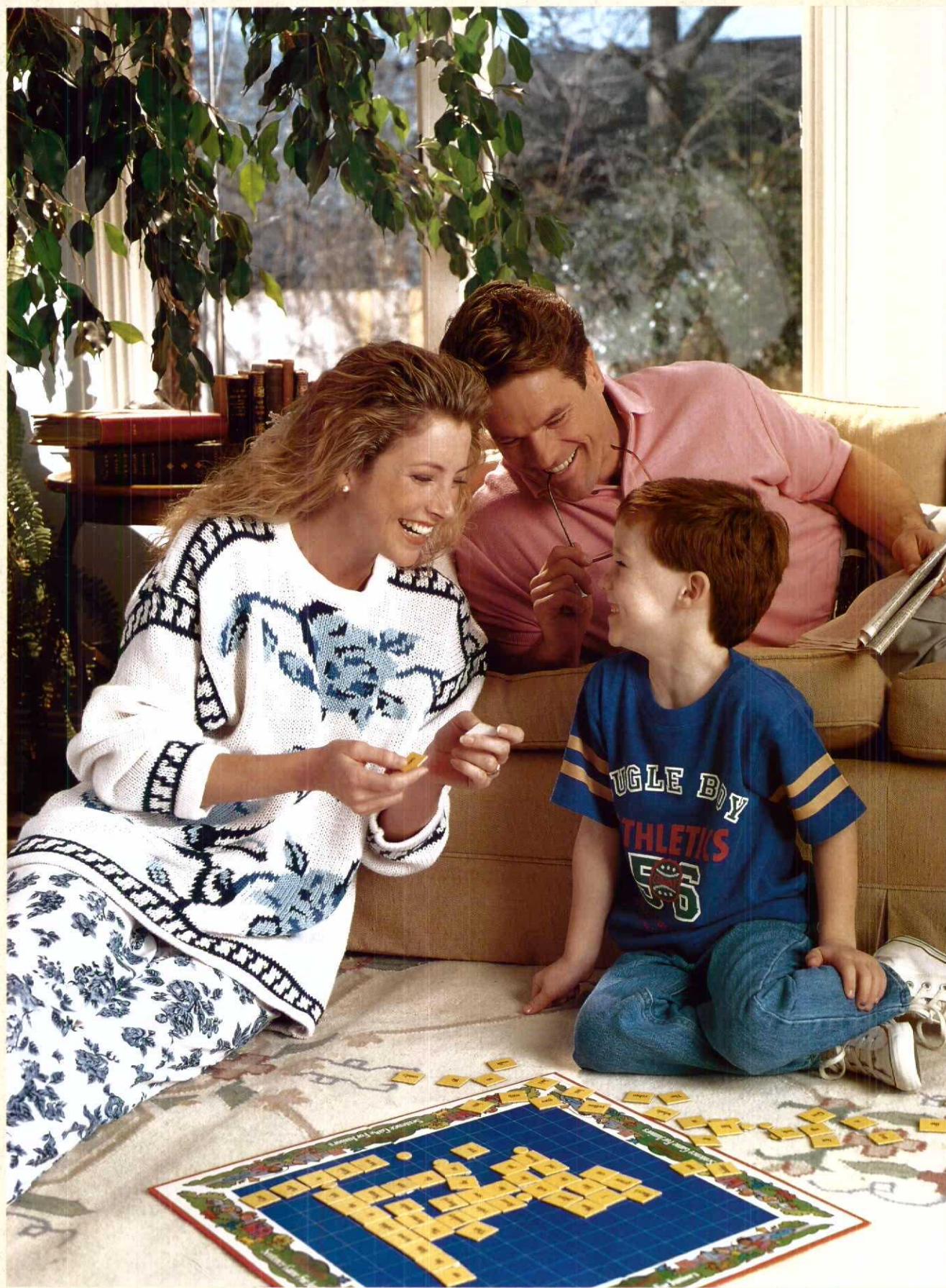
Don Seibert

*Donald V. Seibert
Chairman of the Board, 1974-1983*



Shared responsibilities
assure successful
partnerships. Through its
support for volunteerism,
JCPenney forges
partnerships with
associates and their
communities. Boys'
clothing from Dockers by
Levi's; shoes by
Apparatus. Women's
ensemble and jewelry by
MIXIT, handbag by
Worthington, and shoes
by Jacqueline Ferrar, all
exclusively for JCPenney.





Top quality and
guaranteed satisfaction
make JCPenney a family
tradition. Boys' jeans by
The Original Arizona
Jean Company. Floral
ensemble by Gina Peters.
Men's casualwear from
Dockers by Levi's.

TO DO WHAT IS RIGHT AND JUST

It was no accident that James Cash Penney's first store was named "The Golden Rule." To him, the sign on the Kemmerer, Wyoming, building was much more than a trade name: "I was publicly binding myself in my business relations to a principle which had been a real and intimate part of my family upbringing," he said.

Mr. Penney pioneered a new precept, applying the Golden Rule to business, testing every phase of his store operation against this doctrine. His idea was to build a business through serving the community with fair dealing and honest value.

"Has a business a soul?" Mr. Penney asked. "Has it any quality or characteristic by which it lives, thrives, and grows into majestic proportions? If there are things that disrupt and destroy business, there are also things that establish and perpetuate business. These elements are many — industry, frugality, fair-dealing, self-respect, considerateness."

This soul that Mr. Penney talked about continues to animate the Penney Company.



"The seventh principle of The Penney Idea is central to the long-term vitality of our Company. If we test our every action by asking 'Does it square with what is right and just?' we will continue to earn the trust and loyalty of the American consumer."

A handwritten signature in cursive script, reading "W. R. Howell".

William R. Howell
Chairman of the Board, 1983-Present

CONSOLIDATED STATEMENT OF INCOME

(In millions except per share data)

J.C. Penney Company,
Inc. and Subsidiaries

| For the Year | 1991 | 1990 | 1989 |
|--|---------------|----------------|----------------|
| Revenue | | | |
| Retail sales | \$ 16,201 | \$ 16,365 | \$ 16,103 |
| Finance charge revenue | 647 | 674 | 653 |
| Other revenue | 447 | 371 | 302 |
| Total revenue | 17,295 | 17,410 | 17,058 |
| Costs and expenses | | | |
| Cost of goods sold, occupancy, buying, and warehousing costs | 10,841 | 10,969 | 10,492 |
| Selling, general, and administrative expenses .. | 4,924 | 4,999 | 4,782 |
| Costs and expenses of other businesses | 359 | 309 | 279 |
| Interest expense, net | 308 | 301 | 303 |
| Nonrecurring items | 395 | — | 32 |
| Total costs and expenses | 16,827 | 16,578 | 15,888 |
| Income before income taxes and cumulative effect of accounting change | 468 | 832 | 1,170 |
| Income taxes | 204 | 255 | 368 |
| Income before cumulative effect of accounting change | 264 | 577 | 802 |
| Cumulative effect of accounting change for postretirement health care benefits, net of income taxes of \$116 | 184 | — | — |
| Net income | \$ 80 | \$ 577 | \$ 802 |
| Earnings per common share | | | |
| Primary | | | |
| Income before cumulative effect of accounting change | \$ 1.97 | \$ 4.59 | \$ 6.31 |
| Cumulative effect of accounting change for postretirement health care benefits | (1.58) | — | — |
| Net income | \$.39 | \$ 4.59 | \$ 6.31 |
| Fully diluted | | | |
| Income before cumulative effect of accounting change | \$ 1.97 | \$ 4.33 | \$ 5.86 |
| Cumulative effect of accounting change for postretirement health care benefits | (1.58) | — | — |
| Net income | \$.39 | \$ 4.33 | \$ 5.86 |

See Notes to Consolidated Financial Statements on pages 20 through 31.

| Assets | 1991 | 1990 | 1989 |
|--|------------------|------------------|------------------|
| Current assets | | | |
| Cash and short term investments of \$100, \$128, and \$397 | \$ 111 | \$ 137 | \$ 408 |
| Receivables, net | 3,525 | 3,720 | 4,281 |
| Merchandise inventories | 2,897 | 2,657 | 2,613 |
| Prepaid expenses | 162 | 168 | 165 |
| Total current assets | 6,695 | 6,682 | 7,467 |
| Properties, net | 3,602 | 3,500 | 3,237 |
| Other assets | 2,223 | 2,143 | 1,994 |
| | \$ 12,520 | \$ 12,325 | \$ 12,698 |

Liabilities and Stockholders' Equity

| | | | |
|--|------------------|------------------|------------------|
| Current liabilities | | | |
| Accounts payable and accrued expenses | \$ 1,630 | \$ 1,672 | \$ 1,794 |
| Short term debt | 471 | 904 | 1,288 |
| Current maturities of long term debt | 237 | 75 | 164 |
| Deferred taxes | 71 | 11 | 154 |
| Total current liabilities | 2,409 | 2,662 | 3,400 |
| Long term debt | 3,354 | 3,135 | 2,755 |
| Deferred taxes | 793 | 1,021 | 1,124 |
| Other liabilities | 1,776 | 1,113 | 1,066 |
| Stockholders' equity | | | |
| Preferred stock, without par value: | | | |
| Authorized, 25 million shares — | | | |
| issued, 1 million shares of Series B LESOP | | | |
| convertible preferred | 684 | 697 | 704 |
| Guaranteed LESOP obligation | (509) | (566) | (619) |
| Common stock, par value 50¢: | | | |
| Authorized, 500 million shares — | | | |
| issued, 117, 117, and 120 million shares | 857 | 850 | 865 |
| Reinvested earnings | 3,156 | 3,413 | 3,403 |
| Total stockholders' equity | 4,188 | 4,394 | 4,353 |
| | \$ 12,520 | \$ 12,325 | \$ 12,698 |

See Notes to Consolidated Financial Statements on pages 20 through 31.

| | | | |
|--|-----------------|-----------------|-----------------|
| Reinvested earnings at beginning of year | \$ 3,413 | \$ 3,403 | \$ 3,057 |
| Net income | 80 | 577 | 802 |
| Unrealized change in equity securities | 5 | — | 6 |
| Retirement of common stock | — | (210) | (156) |
| Redemption of preferred stock purchase rights | — | (12) | — |
| Common stock dividends declared | (308) | (311) | (271) |
| Preferred stock dividends declared, net of taxes | (34) | (34) | (35) |
| Reinvested earnings at end of year | \$ 3,156 | \$ 3,413 | \$ 3,403 |

See Notes to Consolidated Financial Statements on pages 20 through 31.

CONSOLIDATED BALANCE SHEET

(In millions)

J.C. Penney Company, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

(In millions)

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

J.C. Penney Company,
Inc. and Subsidiaries

| For the Year | 1991 | 1990 | 1989 |
|--|---------------|---------------|---------------|
| Operating activities | | | |
| Net income | \$ 80 | \$ 577 | \$ 802 |
| Nonrecurring items and cumulative effect of accounting change | 695 | — | 32 |
| Deferred tax effects | (268) | — | — |
| Depreciation and amortization | 314 | 299 | 275 |
| Amortization of original issue discount | 53 | 46 | 46 |
| Deferred taxes | 100 | (246) | (187) |
| Change in cash from: | | | |
| Customer receivables | 413 | (288) | (480) |
| Customer receivables sold (repurchased) | (214) | 800 | 350 |
| Inventories, net of trade payables | (293) | (89) | (349) |
| Other assets and liabilities, net | (13) | (86) | 31 |
| | <u>867</u> | <u>1,013</u> | <u>520</u> |
| Investing activities | | | |
| Capital expenditures | (515) | (637) | (477) |
| Other investments | 7 | 3 | (2) |
| | <u>(508)</u> | <u>(634)</u> | <u>(479)</u> |
| Financing activities | | | |
| Increase (decrease) in short term debt | (433) | (384) | 532 |
| Issuance of long term debt | 500 | 500 | — |
| Payments of long term debt | (104) | (187) | (373) |
| Common stock issued (retired), net | 7 | (225) | (159) |
| Preferred stock retired | (13) | (7) | (2) |
| Redemption of preferred stock purchase rights | — | (12) | — |
| Dividends paid, preferred and common | (342) | (335) | (301) |
| | <u>(385)</u> | <u>(650)</u> | <u>(303)</u> |
| Net decrease in cash and short term investments | (26) | (271) | (262) |
| Cash and short term investments at beginning of year | 137 | 408 | 670 |
| Cash and short term investments at end of year | \$ 111 | \$ 137 | \$ 408 |
| Supplemental cash flow information | | | |
| Interest paid | \$ 267 | \$ 287 | \$ 301 |
| Interest received | \$ 22 | \$ 24 | \$ 33 |
| Income taxes paid | \$ 259 | \$ 478 | \$ 559 |

See Notes to Consolidated Financial Statements on pages 20 through 31.

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 25, 1992, January 26, 1991, and January 27, 1990, and the related consolidated statements of income, reinvested earnings, and cash flows, appearing on pages 14 through 16 and pages 20 through 31, for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 25, 1992, January 26, 1991, and January 27, 1990, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed on page 28, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, in 1991. Also, as discussed on page 22, the Company changed its method of determining retail price indices used in the valuation of LIFO inventories in 1991.

KPMG Peat Marwick

KPMG Peat Marwick
1601 Elm Street, Dallas, Texas 75201
February 27, 1992

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears above. This audit was conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the audit plans, scope, fees, and audit results of the auditors; internal audit reports on the adequacy of internal controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

William R. Howell

William R. Howell
Chairman of the Board
and Chief Executive Officer

Robert E. Northam

Robert E. Northam
Executive Vice President
and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

COMPANY STATEMENT ON FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

| Results of operations (In millions except per share data) | 1991 | 1990 | 1989 |
|--|----------------|-------------|-------------|
| Retail sales, per cent increase (decrease) | (1.0) | 1.6 | 8.6 |
| Gross margin, per cent of retail sales | | | |
| FIFO | 32.5 | 33.3 | 34.5 |
| LIFO | 33.1 | 33.0 | 34.8 |
| Selling, general, and administrative expenses, per cent of retail sales | 30.4 | 30.6 | 29.7 |
| Profits of other businesses | \$ 88 | \$ 62 | \$ 40 |
| Pre-tax income before nonrecurring items* | \$ 863 | \$ 832 | \$ 1,202 |
| Effective income tax rate on income before nonrecurring items* | 38.8 | 30.6 | 31.5 |
| After tax income before nonrecurring items* | \$ 528 | \$ 577 | \$ 822 |
| Per share | \$ 4.00 | \$ 4.33 | \$ 6.01 |
| Per cent of total revenue | 3.0 | 3.3 | 4.8 |

*Nonrecurring items include the cumulative effect of an accounting change.

Income. Pre-tax income before nonrecurring items and the cumulative effect of an accounting change increased 3.8 per cent in 1991 to \$863 million from \$832 million in 1990. After trailing last year's performance for the first nine months of the year, pre-tax income before nonrecurring items in the fourth quarter rose substantially to \$502 million from \$290 million in the 1990 period. The increase was due to a combination of factors. One factor was the shift in the Company's tactics to more affordable pricing, beginning in the second half of the year, that resulted in higher fourth quarter unit sales. In addition, the Company recorded a substantial LIFO credit. Also contributing to the improvement were cost reductions across all operating and support areas and profit contributions of other businesses, particularly insurance.

After tax income before nonrecurring items and the cumulative effect of an accounting change declined 8.5 per cent in 1991 to \$528 million from \$577 million in 1990. The significant improvement in the fourth quarter of 1991 (\$301 million versus \$206 million) was not quite enough to reverse the deterioration in the first three quarters of the year. The decline for the year was due to an increase in the income tax rates that resulted from the expiration of tax benefits on installment sales. The tax rate was also impacted by increases in state and local income taxes. The decline in 1990, to \$577 million from \$822 million in 1989, was primarily due to weakened consumer demand, especially during the second half of the year, and a substantial increase in the LIFO reserve. Income before nonrecurring items increased in 1989 as a result of higher sales and a decrease in the LIFO reserve.

Income per share, before nonrecurring items and the cumulative effect of an accounting change, was \$4.00, as compared with \$4.33 in 1990 and \$6.01 in 1989.

Nonrecurring items in 1991 amounted to \$395 million pre-tax, and reflect recognition of the decline in market value of certain of the Company's real estate properties, the write-off of investments in several experimental businesses, and costs associated with consolidating and streamlining various Company activities. The charge will have no significant effect on cash flow. When these programs are fully implemented in late 1992, the Company expects to realize savings of approximately \$160 million, before taxes, annually. There were no nonrecurring items in 1990. Nonrecurring items in 1989 reflected a pre-tax provision of \$32 million for discontinuing Telaction, a subsidiary that had offered an interactive television shopping service.

Income before the cumulative effect of an accounting change was \$264 million in 1991, or \$1.97 per share. This compared with \$577 million or \$4.33 per share in 1990 and \$802 million or \$5.86 per share in 1989. In 1991, the Company adopted Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, that resulted in a one-time charge to earnings of \$184 million, net of taxes, or \$1.58 per share. This had no effect on cash flow.

Net income in 1991 was \$80 million compared with \$577 million in 1990 and \$802 million in 1989.

Revenue. Sales of JCPenney stores declined 0.3 per cent in 1991. By division, sales increased approximately 3 per cent in men's and 1 per cent in women's, while declining approximately 4 per cent in both children's and home furnishings. Catalog sales declined 6.8 per cent for the year. Drug store sales rose 8.6 per cent. Total retail sales declined 1.0 per cent to \$16,201 million. Total retail sales increased 1.6 per cent in 1990 and 8.6 per cent in 1989.

Finance charge revenue arising from the JCPenney credit card customer receivables decreased 3.9 per cent in 1991 to \$647 million. The decrease was due to lower sales, a lower utilization of the JCPenney credit card, and faster repayments by customers resulting in lower average customer account balances. In 1990, finance charge revenue increased 3.2 per cent to \$674 million and increased 0.6 per cent in 1989 to \$653 million.

Gross margin on a FIFO basis, as a per cent of retail sales, declined 80 basis points in 1991 from the previous year due to increased promotional activity in the first half of the year. On a LIFO basis, gross margin, as a per cent of retail sales, improved slightly. In 1991, the Company elected to apply an internally developed LIFO index (rather than one prepared by the U.S. Government for all department stores) to measure more accurately the amount of inflation or deflation in JCPenney retail prices. Because of the shift to more affordable retail prices, there was deflation in the Company's LIFO index in 1991. As a result, there was a LIFO credit of \$91 million for the year compared with a LIFO charge of \$49 million in 1990 and a LIFO credit of \$42 million in 1989. Refer to page 22 of the 1991 Financial Review for further discussion on LIFO.

The decline in gross margin as a per cent of retail sales in 1990 was primarily due to the slowdown in consumer spending, particularly in the second half of the year. In 1989, gross margin, on a FIFO basis, declined as a result of increased promotional activity.

SG&A expenses declined in 1991 by 1.5 per cent, reflecting the Company's efforts to reduce costs across all operating and support areas. SG&A expense dollars increased 4.5 per cent in 1990 reflecting higher bad debt expense, fixture depreciation, and health care costs. In 1989, SG&A expense dollars increased 7.1 per cent due primarily to higher salaries and personnel related costs resulting from increased sales volume.

SG&A expenses, expressed as a per cent of retail sales, declined in 1991 to 30.4 per cent from 30.6 per cent in 1990 as a result of lower expenses due to the Company's efforts to control costs. In 1990, the SG&A expense ratio increased from 29.7 per cent in 1989 due to lower sales volume. In 1989, the SG&A expense ratio declined as a result of higher sales volume.

Profits of other businesses increased substantially in each of the past three years, principally due to record levels of life and health insurance premiums and profitability. JCPenney Insurance's pre-tax income rose approximately 44 percent to \$79 million from \$55 million in 1990.

Interest expense, at \$308 million in 1991, remained relatively flat compared with the preceding two years in both dollars and as a per cent of retail sales.

The effective income tax rate on income before nonrecurring items for 1991 was 38.8 per cent compared with 30.6 per cent and 31.5 per cent for 1990 and 1989, respectively. As a result of the Tax Reform Act of 1986, income taxes were reduced \$52 million in both 1990 and 1989, due to the repayment of a portion of the taxes on installment sales previously deferred at higher tax rates. 1990 was the last year for such income tax reductions. The effective income tax rate for 1991 was also affected by increases in state and local income tax rates. The Financial Accounting Standards Board issued Statement No. 109, *Accounting for Income Taxes*, in February 1992. The standard, which supersedes Statement No. 96, is effective beginning in fiscal year 1993. The Company has not adopted this standard. For further information, see page 20.

Financial position. The Company generated \$1,081 million in cash from operating activities in 1991 as compared with \$213 million in 1990 and \$170 million in 1989, excluding sales and repurchases of customer receivables. After the 1991 repurchase of \$214 million of customer receivables and the 1990 and 1989 sales of customer receivables of \$800 million and \$350 million, respectively, the Company generated \$867 million in cash from operating activities in 1991 as compared with \$1,013 million in 1990 and \$520 million in 1989.

Total customer receivables serviced by the Company were \$4.4 billion at the end of 1991, \$413 million or approximately 9 per cent below the level at the end of 1990. The decrease in 1991 customer receivables serviced reflects lower sales and a reduction in the utilization of the JCPenney credit card as well as faster repayments by customers. Total customer receivables serviced were \$4.8 billion at the end of 1990, or about 6 per cent above the level at the end of 1989.

The Company sold \$800 million of customer receivables in 1990 and \$350 million in 1989. The primary objective of these transactions was to increase the financial flexibility of the Company's capital structure by providing access to a significant source of funds. Subsequent to January 25, 1992, the Company purchased in the open market \$130 million of asset-backed certificates.

Merchandise inventories, on a FIFO basis, increased to \$3.2 billion in 1991, up 4.9 per cent from 1990. The Company has continued its efforts to bring its merchandise in line with an appropriate combination of value and fashion. FIFO inventories increased 3.1 per cent in 1990, and increased 14.2 per cent in 1989.

Property, plant, and equipment, at \$3.6 billion, was \$102 million above the level of 1990. Capital expenditures recorded in 1991 were \$505 million, \$94 million below the level of the preceding year. Capital expenditures were \$519 million in 1989. The Company presently expects capital expenditures of approximately \$500 million in each of the next three years.

During 1991, the Company issued \$250 million of 9.05 per cent notes due 2001, and \$250 million of 9.75 per cent sinking fund debentures due 2021. In 1990, the Company issued \$250 million of 10 per cent notes due 1997 and \$250 million of 9.45 per cent notes due in 2002. The Company called two issues of high coupon long term debt in 1989 totaling \$143 million. Subsequent to January 25, 1992, the Company exercised its option to prepay \$127 million of long term debt due 1995 to 1998.

Total debt at year end included \$509 million of borrowings by the LESOP, which is guaranteed by the Company. The source of funds to repay the LESOP debt will be dividends from the Series B preferred stock and cash contributions by the Company, totaling approximately \$50 million semi-annually through July 1998.

Stockholders' equity was \$4.2 billion at the end of 1991, a decline of \$206 million from the previous year due to the nonrecurring items and the cumulative effect of an accounting change.

The Company anticipates that the major portion of its cash requirements during the next few years to finance its operations, store updating, and expansion will continue to be generated internally from operations. The Company will continue to review all expenditures to maximize financial returns and maintain financial flexibility.

Impact of inflation and changing prices. The impact of inflation on the Company has lessened in recent years as the rate of inflation has declined. Inflation causes increases in the cost of doing business, including capital expenditures. The effects of rising costs cannot always be passed along to customers by adjusting prices because of competitive conditions. By striving to control costs, the Company attempts to minimize the effects of inflation on its operation.

SUMMARY OF ACCOUNTING POLICIES

The dominant portion of the Company's business consists of selling merchandise and services to consumers through department stores that include catalog departments.

Basis of consolidation. The consolidated financial statements present the results of J.C. Penney Company, Inc. and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1991 ended January 25, 1992, 1990 ended January 26, 1991, and 1989 ended January 27, 1990. They each comprised 52 weeks. The accounts of JCPenney Insurance and JCPenney National Bank are on a calendar year basis.

Retail sales. Retail sales include merchandise and services, net of returns, and exclude sales taxes.

Short term investments. Cash invested in instruments with maturities of three months or less from time of investment is reflected as short term investments.

Merchandise inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, and 10 per cent for selling fixtures and equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

Deferred charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

RECENT ACCOUNTING STANDARDS

Postretirement benefits other than pensions. The Financial Accounting Standards Board issued Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, in December 1990. The statement is effective beginning in the first quarter of 1993. The Company elected to adopt the standard in 1991, retroactive to the first quarter. For further discussion, refer to pages 27 and 28 in the 1991 Financial Review.

Income taxes. The Financial Accounting Standards Board issued Statement No. 109, *Accounting for Income Taxes*, in February 1992. This standard supersedes Statement No. 96, *Accounting for Income Taxes*. Statement No. 109 requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). Deferred taxes will be determined by applying the provisions of enacted tax laws, and adjustments will be required for changes in tax laws and rates. The Company did not elect to adopt Statement No. 96 nor has it yet adopted Statement No. 109, which requires adoption by the first quarter of 1993. If the liability method required by Statement No. 109 had been applied in 1991, deferred taxes reflected on the balance sheet would have been reduced by approximately \$100 million, and stockholders' equity would have increased by the same amount, resulting from using current tax rates. The standard permits either a restatement of previously issued financial statements or the inclusion of the cumulative effect of changing to the new standard as a separate component of net income in the year the standard is adopted. The Company is still evaluating the two methods of adoption.

Fair value of financial instruments. The Financial Accounting Standards Board issued Statement No. 107, *Disclosure about Fair Value of Financial Instruments*, in December 1991. This standard, which is required to be adopted in 1992, requires disclosure of fair value of financial instruments, for which it is practicable to estimate fair value. The Company did not adopt this standard in 1991 and has not determined the impact on its financial statement disclosures.

1991 FINANCIAL REVIEW

Income before nonrecurring items and cumulative effect of accounting change was \$528 million in 1991, compared with \$577 million in 1990 and \$822 million in 1989. Earnings per share amounted to \$4.00, as compared with \$4.33 in 1990 and \$6.01 in 1989.

Nonrecurring items amounted to \$395 million in 1991 and \$32 million in 1989. There were no non-recurring items in 1990.

Nonrecurring items in 1991 included recognition of the decline in market value of certain of the Company's real estate properties, the write-off of investments in several experimental businesses, and costs associated with consolidating and streamlining various Company activities. The non-recurring item in 1989 was a provision for discontinuing Telaction, an interactive television home shopping service.

Net income for 1991 was also affected by a \$184 million after tax charge that reflected the cumulative effect of an accounting change for postretirement health care benefits. This had no effect on cash flow. After the charge, net income was \$80 million for 1991 compared with \$577 million in 1990 and \$802 million in 1989.

Earnings per common share. Primary earnings per share are computed by dividing net income less dividend requirements on the Series B LESOP convertible preferred stock, net of tax, by the weighted average common stock and common stock equivalents outstanding. Fully diluted earnings per share also assume conversion of the Series B LESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional expense, net of tax, required to fund the LESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends.

For 1991, due to the level of net income, the Series B LESOP convertible preferred stock was antidilutive. Consequently, conversion was not assumed in the 1991 fully diluted earnings per share calculation.

| | | Per cent increase (decrease) 1991 vs. 1990 | | | Per cent increase 1990 vs. 1989 | | |
|-----------------------------------|------------------|--|---------------------------|-------------|------------------------------------|---------------------------|-------------|
| | | All units | Com- parative units | | All units | Com- parative units | |
| Retail sales (In millions) | 1991 | | | 1990 | | | 1989 |
| JCPenney stores | \$ 12,007 | (0.3) | (1.5) | \$ 12,048 | 1.2 | 0.0 | \$ 11,911 |
| Catalog | 3,002 | (6.8) | n/a | 3,220 | 0.5 | n/a | 3,205 |
| Drug stores | 1,192 | 8.6 | 6.1 | 1,097 | 11.2 | 8.1 | 987 |
| Total retail sales | \$ 16,201 | (1.0) | (1.8) | \$ 16,365 | 1.6 | 0.2 | \$ 16,103 |

JCPenney stores include the department stores of the Company which are located in all 50 states and Puerto Rico. The stores market predominantly family apparel, shoes, jewelry, accessories, and home furnishings. All stores have a catalog department. Many of the stores also include styling salons, optical departments, and photographic studios.

Catalog expands the Company's retailing capabilities by offering a wide range of merchandise to complement the stores' assortments. Merchandise offerings, the majority of which represents lines of merchandise also found in JCPenney stores, include family fashions and home furnishings as well as sporting goods, home electronics, and other hardlines. Two general catalogs are published, Fall & Winter and Spring & Summer, and each is circulated to in excess of 10 million customers. The general catalogs are supplemented by some 50 seasonal, promotional, and specialty catalogs.

Drug stores, operating under the name Thrift Drug or Treasury Drug, offer typical drug store merchandise, including prescription drugs, along with health and beauty aid products. Thrift Drug's mail order pharmacy operation services the maintenance prescription needs of customers from corporations and other organizations.

For additional information regarding JCPenney stores, catalog, and drug stores operations, see the Five Year Operations Summary on page 33.

ASSETS

| Receivables (In millions) | 1991 | 1990 | 1989 |
|--|-----------------|-------------|-------------|
| Customer receivables serviced | \$ 4,489 | \$ 4,897 | \$ 4,607 |
| Customer receivables sold | 1,186 | 1,400 | 600 |
| Customer receivables owned | 3,303 | 3,497 | 4,007 |
| Less allowance for doubtful accounts | 79 | 74 | 72 |
| Customer receivables, net | 3,224 | 3,423 | 3,935 |
| Other receivables* | 301 | 297 | 346 |
| Receivables, net | \$ 3,525 | \$ 3,720 | \$ 4,281 |

* Certain prior years' amounts have been reclassified to other assets to conform to current year's presentation.

During the period 1988 to 1990, the Company transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. Certificates sold were \$800 million in 1990, \$350 million in 1989, and \$250 million in 1988. No gain or loss was recognized at the date of sale. As of January 25, 1992, \$1,186 million of the certificates were outstanding and the balances of the receivables in the trust were \$1,755 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

Cash flows generated from receivables in the trust are dedicated to payment of interest on the certificates (fixed rates ranging from 8.70% to 9.625%), absorption of defaulted accounts in the trust, and payment of servicing fees to the Company. Excess cash flows are used to establish reserve funds (\$87 million at January 25, 1992) that are available if cash flows from the receivables become insufficient to make such payments. None of the reserve funds has been utilized as of January 25, 1992. Additionally, the Company has made available to the trust irrevocable letters of credit of \$168 million that may be drawn upon should the reserve funds be exhausted. None of the letters of credit was in use as of January 25, 1992. In connection with the sale of \$375 million of certificates in 1990, the Company entered into two offsetting interest rate swap agreements with a commercial bank, each having a notional principal amount of \$375 million. Currently, the Company has no interest rate exposure from the offsetting interest rate swap agreements which terminate when all certificates have been settled in the year 2000.

| Merchandise inventories (In millions) | 1991 | 1990 | 1989 |
|---|-----------------|-------------|-------------|
| Merchandise inventories, at lower of cost (FIFO) or market .. | \$ 3,211 | \$ 3,062 | \$ 2,969 |
| LIFO reserve | (314) | (405) | (356) |
| Merchandise inventories, at LIFO cost | \$ 2,897 | \$ 2,657 | \$ 2,613 |

Substantially all of the Company's inventories are measured using the last-in, first-out (LIFO) method of inventory valuation. Since the adoption of this method in 1974, the Company has used the Bureau of Labor Statistics price indices applied against inventory selling values to arrive at an inventory valuation. In 1991, the Company applied internally developed indices that more accurately measure inflation or deflation in its own retail prices. The impact on the individual prior years presented and the cumulative effect of this change on reinvested earnings at the beginning of 1991 is not determinable. However, the effect of using the internal indices instead of the Bureau of Labor Statistics price indices at the end of 1991 was to increase net income by approximately \$100 million, or 78 cents per share, in 1991.

| Properties (In millions) | 1991 | 1990 | 1989 |
|--|-----------------|-------------|-------------|
| Land | \$ 203 | \$ 194 | \$ 171 |
| Buildings | | | |
| Owned | 1,814 | 1,640 | 1,539 |
| Capital leases | 244 | 247 | 247 |
| Fixtures and equipment | 2,633 | 2,552 | 2,299 |
| Leasehold improvements | 570 | 576 | 535 |
| | 5,464 | 5,209 | 4,791 |
| Less accumulated depreciation and amortization | 1,862 | 1,709 | 1,554 |
| Properties, net | \$ 3,602 | \$ 3,500 | \$ 3,237 |

At January 25, 1992, the Company owned 229 retail stores, four catalog distribution centers, and two store distribution centers.

| Capital expenditures (In millions) | 1991 | 1990 | 1989 |
|---|---------------|-------------|-------------|
| Land | \$ 7 | \$ 25 | \$ 9 |
| Buildings | 209 | 110 | 113 |
| Fixtures and equipment | 237 | 400 | 330 |
| Leasehold improvements | 52 | 64 | 67 |
| Total capital expenditures | \$ 505 | \$ 599 | \$ 519 |

Expenditures for existing stores, primarily modernizations and updates, were \$134 million in 1991, as compared with \$309 million in 1990 and \$246 million in 1989. Expenditures for new stores opened in 1991, 1990, and 1989 were \$172 million, \$154 million, and \$133 million, respectively.

Accounts payable and accrued expenses

| (In millions) | 1991 | 1990 | 1989 |
|---|----------|----------|----------|
| Trade payables | \$ 610 | \$ 663 | \$ 708 |
| Accrued salaries, vacations, profit-sharing, and bonuses | 385 | 398 | 390 |
| Taxes, including income taxes | 190 | 197 | 258 |
| Workers' compensation and public liability insurance | 112 | 89 | 112 |
| Common dividend payable | 77 | 77 | 67 |
| Other | 256 | 248 | 259 |
| Total | \$ 1,630 | \$ 1,672 | \$ 1,794 |

Short term debt (In millions)

| | 1991 | 1990 | 1989 |
|------------------------------|----------|----------|----------|
| Commercial paper | \$ 414 | \$ 842 | \$ 1,255 |
| Master notes | 57 | 62 | 33 |
| Short term debt | \$ 471 | \$ 904 | \$ 1,288 |
| Average borrowings | \$ 754 | \$ 1,277 | \$ 1,266 |
| Peak outstanding | \$ 1,489 | \$ 1,665 | \$ 2,241 |
| Average interest rates | 5.6% | 8.1% | 8.9% |

Current maturities of long term debt (In millions)

| | 1991 | 1990 | 1989 |
|--|--------|-------|--------|
| Zero coupon notes, due November 1992, \$150 million at maturity, yield 13.5%, effective rate 12.5% | \$ 135 | \$ — | \$ — |
| 10.8% EuroYen notes, due February 1992 | 102 | — | — |
| 7.875% debentures, due September 1991 | — | 75 | — |
| 10.875% notes, due October 1990 | — | — | 100 |
| 12.125% notes, due 1993, called January 1990 ... | — | — | 64 |
| Total | \$ 237 | \$ 75 | \$ 164 |

Long term debt (In millions)

| | 1991 | 1990 | 1989 |
|---|----------|----------|----------|
| Original issue discount | | | |
| Zero coupon notes and 6% debentures, due 1992 to 1994 and 2006, \$700 at maturity, yields 13.5% to 15.1%, effective rates 12.5% to 13.2% | \$ 359 | \$ 441 | \$ 395 |
| Debentures and notes | | | |
| 7.875% to 8.875%, due 1991 to 1998 | 269 | 289 | 378 |
| 9% to 9.75%, due 1995 to 2021 | 1,757 | 1,265 | 1,015 |
| 10% to 10.875%, due 1992 to 1997 | 250 | 352 | 109 |
| Other | 50 | 47 | 50 |
| | 2,685 | 2,394 | 1,947 |
| Present value of commitments under capital leases | 160 | 175 | 189 |
| Guaranteed LESOP notes, 8.17%, due 1998* | 509 | 566 | 619 |
| Long term debt | \$ 3,354 | \$ 3,135 | \$ 2,755 |
| Average interest rates | 10.2% | 10.3% | 10.4% |

*For further discussion, see LESOP on page 28.

**LIABILITIES AND
STOCKHOLDERS'
EQUITY**

| Changes in long term debt (In millions) | 1991 | 1990 | 1989 |
|---|---------------|-------------|-------------|
| Increases | | | |
| 9.05% to 10% notes, due 1997 to 2021 | \$ 500 | \$ 500 | \$ — |
| Amortization of original issue discount | 53 | 46 | 40 |
| Other | 5 | — | — |
| | 558 | 546 | 40 |
| Decreases | | | |
| 12.75% notes, due 1991, called in 1989 | — | — | 79 |
| Transfers to current maturities of long term debt | 237 | 75 | 164 |
| Other, including LESOP amortization | 102 | 91 | 106 |
| | 339 | 166 | 349 |
| Net increase (decrease) in long term debt | \$ 219 | \$ 380 | \$ (309) |

| Maturities of long term debt (In millions) | Long term debt | Capital leases |
|---|-----------------------|-----------------------|
| 1992 | \$ 294 | \$ 23 |
| 1993 | 48 | 24 |
| 1994 | 398 | 25 |
| 1995 | 148 | 19 |
| 1996 | 189 | 19 |
| 1997 to 2001 | 1,059 | 72 |
| Thereafter | 992 | 36 |
| Total | \$ 3,128 | 218 |
| Less future interest and executory expenses | | 58 |
| Present value | | \$ 160 |

| Other liabilities (In millions) | 1991 | 1990 | 1989 |
|---|-----------------|-------------|-------------|
| Liabilities of other businesses | \$ 1,190 | \$ 1,113 | \$ 1,066 |
| Accumulated postretirement benefit obligation | 310 | — | — |
| Reserve for nonrecurring items* | 276 | — | — |
| | \$ 1,776 | \$ 1,113 | \$ 1,066 |

*Includes recognition of decline in market value of certain of JCP Realty's real estate properties.

Committed bank credit facilities available to the Company as of January 25, 1992, amounted to \$1.25 billion. In 1990, the Company entered into a three year International Revolving Credit Facility Agreement under which \$750 million is available to the Company. In addition, the Company has \$500 million of confirmed lines of credit available. Both the International Revolving Credit Facility Agreement and confirmed lines of credit support commercial paper borrowing arrangements and neither was in use as of January 25, 1992.

Stockholders' equity was \$4,188 million at year end 1991 compared with \$4,394 million at year end 1990 and \$4,353 million at year end 1989.

Preferred stock. In 1988, a leveraged employee stock ownership plan (LESOP) was created (see page 28 for further discussion). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to ten shares of common stock for each share of preferred stock. The conversion price is \$60.00 per common share. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, yield 7.9 per cent, and are payable semi-annually on January 1 and July 1. The convertible preferred stock issued to the LESOP has been recorded in the stockholders' equity section of the consolidated balance sheet and the "Guaranteed LESOP obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity.

The preferred dividend is payable semi-annually at an annual rate of \$4.74 per common equivalent share. Preferred dividends declared were \$54 million in 1991, \$55 million in 1990, and \$56 million in 1989; on an after tax basis, the dividends amounted to \$34 million in 1991, \$34 million in 1990, and \$35 million in 1989.

In 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of common stock and authorized the redemption of the old preferred stock purchase rights for 10 cents per share totaling \$12 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the purchase, for each right held, of 1/200 of a share of Series A junior participating preferred stock at a price of \$280. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

Common stock. The quarterly common dividend was 66 cents per share in 1991 and 1990, and 56 cents per share in 1989, or an annual rate of \$2.64 per share in 1991 and 1990, and \$2.24 in 1989. Common dividends declared were \$308 million in 1991, \$311 million in 1990, and \$271 million in 1989.

| Changes in outstanding common stock | Shares (In thousands) | | | Amounts (In millions) | | |
|--|--------------------------|---------|---------|--------------------------|--------|--------|
| | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 |
| Balance at beginning of year | 116,561 | 120,347 | 122,830 | \$ 850 | \$ 865 | \$ 862 |
| Common stock issued | 90 | 179 | 572 | 7 | 12 | 24 |
| Common stock purchased and retired | — | (3,965) | (3,055) | — | (27) | (21) |
| Balance at end of year | 116,651 | 116,561 | 120,347 | \$ 857 | \$ 850 | \$ 865 |

There were approximately 55,000 stockholders of record at year end 1991. In addition, the Company's savings plans, including the LESOP, had nearly 100,000 participants and held 18.4 million shares of the Company's common stock. The savings plans also held 1.1 million shares of preferred stock, convertible into 11.4 million shares of common stock. On a combined basis, these plans held approximately 23 per cent of the Company's common shares after giving effect to the conversion of the preferred stock at the end of fiscal year 1991.

Equity Compensation Plan. Under the 1989 Equity Compensation Plan (Plan), five million shares of common stock were initially reserved for issuance. The Plan provides for the ability to grant a number of different types of options, such as: incentive stock options, nonqualified stock options, tax benefit rights, stock appreciation rights, and discount options. The 1991 stock option grant was a multiple grant and it is expected that no annual grants will be made in 1992 or 1993. The Plan also provides for grants of stock options and restricted stock awards to members of the Board of Directors not otherwise employed by the Company.

| Stock options | 1991 | | 1990 | | 1989 | |
|------------------------------------|--------------------------|--|--------------------------|--|--------------------------|--|
| | Shares (In thousands) | Weighted average option price | Shares (In thousands) | Weighted average option price | Shares (In thousands) | Weighted average option price |
| Balance at beginning of year | 1,910 | \$ 48.21 | 1,499 | \$ 40.76 | 1,531 | \$ 34.36 |
| Granted | 3,024 | 54.58 | 545 | 63.81 | 524 | 53.07 |
| Exercised | (103) | 25.70 | (127) | 27.92 | (552) | 34.64 |
| Expired and cancelled | (86) | 56.39 | (7) | 38.32 | (4) | 47.84 |
| Balance at end of year | 4,745 | \$ 52.61 | 1,910 | \$ 48.21 | 1,499 | \$ 40.76 |

The Plan also provides for the ability to grant stock awards. Under the Plan and a predecessor plan, the Company issued to its officers a total of 408 thousand shares of restricted stock awards since 1987 which generally vest over a five year period. The awards have conditions and restrictions which are designed to assure that the officers stay in the Company's service and retain stock ownership.

**ADDITIONAL
FINANCIAL DATA**

| | 1991 | | 1990 | | 1989 | |
|---|--------------------------|----------------------------------|--------------------------|----------------------------------|--------------------------|----------------------------------|
| | Amounts (In billions) | Per cent of eligible sales | Amounts (In billions) | Per cent of eligible sales | Amounts (In billions) | Per cent of eligible sales |
| Credit sales | | | | | | |
| JCPenney credit card | \$ 7.9 | 49.3 | \$ 8.4 | 51.8 | \$ 8.1 | 50.9 |
| American Express, MasterCard, and Visa | 2.0 | 12.3 | 1.8 | 11.2 | 1.7 | 10.4 |
| Total | \$ 9.9 | 61.6 | \$ 10.2 | 63.0 | \$ 9.8 | 61.3 |

Regular Charges accounted for approximately 92 per cent of sales on the JCPenney credit card and the balance represented Major Purchase charges in the last three years.

At year end, the number of JCPenney credit card accounts with outstanding balances was 16.8 million under the regular plan and 1.5 million under the Major Purchase plan. The average balances and maturities are shown in the table below:

| | Average account balances | | | Average maturities (In months) | | |
|-------------------------------|-----------------------------|--------|--------|-----------------------------------|------|------|
| | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 |
| Regular Charge balances | \$ 220 | \$ 226 | \$ 210 | 4.2 | 4.2 | 4.0 |
| Major Purchase balances | \$ 519 | \$ 541 | \$ 526 | 9.5 | 9.6 | 9.5 |
| All | \$ 244 | \$ 253 | \$ 239 | 4.7 | 4.8 | 4.6 |

Includes all customer receivables serviced.

| Key JCPenney credit card information (In millions) | 1991 | 1990 | 1989 |
|--|-----------------|----------|----------|
| Number of accounts serviced with balances | 18.3 | 19.3 | 19.2 |
| Customer receivables serviced | | | |
| Regular Charge balances | \$ 3,705 | \$ 3,997 | \$ 3,683 |
| Major Purchase balances | 784 | 900 | 924 |
| Total customer receivables serviced | \$ 4,489 | \$ 4,897 | \$ 4,607 |
| Bad debt expense | \$ 240 | \$ 201 | \$ 146 |
| Per cent of customer charges | 2.8 | 2.2 | 1.6 |
| Accounts 90 days or more past due as a per cent of customer receivables | 2.8 | 2.4 | 2.0 |

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising the Company's credit card base, and their dispersion across the country.

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was \$398 million in 1991, as compared with \$416 million in 1990 and \$414 million in 1989.

| Interest expense (In millions) | 1991 | 1990 | 1989 |
|--|---------------|-------------|-------------|
| Short term debt | \$ 42 | \$ 103 | \$ 113 |
| Long term debt | 288 | 228 | 232 |
| Income on short term investments | (19) | (26) | (47) |
| Other, net | (3) | (4) | 5 |
| Interest expense, net | \$ 308 | \$ 301 | \$ 303 |

| Rent expense (In millions) | 1991 | 1990 | 1989 |
|--|---------------|-------------|-------------|
| Minimum rent on noncancellable operating leases ... | \$ 251 | \$ 248 | \$ 215 |
| Rent based on sales | 33 | 36 | 37 |
| Minimum rent on cancellable personal property leases | 91 | 83 | 90 |
| Real estate taxes and common area costs | 120 | 113 | 110 |
| Total | \$ 495 | \$ 480 | \$ 452 |

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises.

Minimum annual rents under noncancellable operating leases and subleases (In millions)

| | Gross rents | Net rents* |
|--------------------------------------|-----------------|-----------------|
| 1992 | \$ 236 | \$ 159 |
| 1993 | 228 | 155 |
| 1994 | 210 | 144 |
| 1995 | 194 | 133 |
| 1996 | 180 | 124 |
| Thereafter | 1,150 | 839 |
| Total | <u>\$ 2,198</u> | <u>\$ 1,554</u> |
| Present value | | \$ 900 |
| Weighted average interest rate | | 10% |

*Rents are shown net of their estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

| Retirement plans (In millions) | 1991 | 1990 | 1989 |
|---------------------------------------|--------------|-------------|-------------|
| Pension | | | |
| Service cost | \$ 37 | \$ 39 | \$ 34 |
| Interest cost | 114 | 105 | 96 |
| Actual (return) loss on assets | (332) | 18 | (213) |
| Net amortization and deferral | 180 | (176) | 75 |
| Pension credit | (1) | (14) | (8) |
| Postretirement health care | | | |
| Service cost | 5 | n/a | n/a |
| Interest cost | 26 | n/a | n/a |
| Total | 31 | 16* | 14* |
| LESOP expense | 48 | 47 | 47 |
| Total retirement plans | \$ 78 | \$ 49 | \$ 53 |

*Pay-as-you-go basis

Pension plan. JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. In general, benefits payable under the principal pension plan are determined by reference to a participant's final average earnings and years of credited service up to 35 years.

Postretirement health care benefits. The Company has adopted the Financial Accounting Standards Board Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, for its Retiree Health Care Plan (Plan). This statement requires accrual accounting for the expected cost of providing postretirement health care benefits to employees and their beneficiaries and covered dependents meeting certain eligibility requirements. Prior to 1991, the Company accounted for these benefits on a pay-as-you-go basis.

The Plan covers medical and dental services and eligibility for benefits is based on age and years of service. The Plan is contributory and the amounts paid by retired employees have increased in recent years and are expected to continue to do so. For certain groups of active employees, benefits will be based on a fixed dollar amount which will vary with years of service, age, and dependent coverage. The Plan is funded on a pay-as-you-go basis by the Company and employee contributions. The change in accounting method will have no effect on cash flows.

For measurement purposes, the health care trend rate was assumed to be 15 per cent for 1991 and gradually decrease to 8 per cent in the year 2000 and finally to 7 per cent in the year 2010 and beyond. A one per cent increase in the health care trend rate would increase the amount reported for the accumulated obligation by \$18 million and would result in \$2 million additional expense for 1991.

LESOP. The Company's LESOP is a defined contribution plan which covers substantially all United States employees who have completed at least 1,000 hours of service within a period of 12 consecutive months, and if hired on or after January 1, 1988, have attained 21 years of age.

The LESOP borrowed \$700 million at an interest rate of 8.17 per cent through a 10 year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. The Company used the proceeds from the issuance of preferred stock to the LESOP to purchase 14 million common shares of the Company in the open market.

The Company has reflected the guaranteed LESOP borrowing as long term debt on the consolidated balance sheet. A like amount of "Guaranteed LESOP obligation" was recorded as a reduction of stockholders' equity. The convertible preferred stock issued to the LESOP for cash was recorded in the stockholders' equity section. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP obligation" is reduced accordingly.

The amount of compensation cost recorded by the Company represents its cash contribution to the LESOP.

The following table sets forth the status of the Company's retirement plans:

| Retirement plans (In millions) | December 31 | | |
|---|-----------------|---------------|---------------|
| | 1991 | 1990 | 1989 |
| Pension | | | |
| Present value of accumulated benefits | | | |
| Vested | \$ 976 | \$ 767 | \$ 804 |
| Non-vested | 67 | 62 | 66 |
| | <u>\$ 1,043</u> | <u>\$ 829</u> | <u>\$ 870</u> |
| Present value of actuarial benefit obligation ... | \$ 1,373 | \$ 1,156 | \$ 1,148 |
| Net assets at fair market value | <u>1,561</u> | <u>1,284</u> | <u>1,351</u> |
| Excess assets | 188 | 128 | 203 |
| Unrecognized transition asset, net of unrecognized losses | <u>(64)</u> | <u>(19)</u> | <u>(119)</u> |
| Net prepaid pension asset | <u>\$ 124</u> | <u>\$ 109</u> | <u>\$ 84</u> |
| Postretirement health care benefits | | | |
| Accumulated benefit obligation | | | |
| Retirees | \$ 191 | | |
| Fully eligible active participants | 77 | | |
| Other active participants | <u>42</u> | | |
| | <u>\$ 310</u> | | |
| Key assumptions | | | |
| Rate of return on pension plan assets | 9.5% | 9.5% | 9.5% |
| Discount rate | 9.0% | 10.0% | 9.0% |
| Salary progression rate | 6.0% | 6.0% | 6.0% |

| | Savings plans | | | Pension | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | December 31 | | | December 31 | | |
| Total assets and equity (In millions) | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 |
| JCPenney common stock (19, 19, and 17 million shares at cost: \$730, \$702, and \$579) | \$ 1,035 | \$ 842 | \$ 1,267 | \$ — | \$ — | \$ — |
| JCPenney preferred stock (1, 1, and 1 million shares at cost: \$685, \$698, and \$704) | 685 | 698 | 854 | — | — | — |
| Funds with insurance companies | 859 | 822 | 855 | — | — | — |
| Equity securities (cost: \$39, \$28, \$21, \$905, \$795, and \$865) | 79 | 53 | 52 | 1,188 | 917 | 1,060 |
| Fixed income investments (cost: \$43, \$1, \$6, \$255, \$278, and \$179) | 43 | 1 | 6 | 279 | 267 | 178 |
| Real estate (cost: \$83, \$83, and \$86) ... | — | — | — | 93 | 105 | 108 |
| LESOP loan obligation, including accrued interest of \$21, \$24, and \$26 | (560) | (617) | (670) | — | — | — |
| Other assets, net | 32 | 24 | 13 | 1 | (5) | 5 |
| Net assets | \$ 2,173 | \$ 1,823 | \$ 2,377 | \$ 1,561 | \$ 1,284 | \$ 1,351 |

| | Savings plans | | | Pension | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | December 31 | | | December 31 | | |
| Changes in fair value of net assets (In millions) | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 |
| Net assets at beginning of year | \$ 1,823 | \$ 2,377 | \$ 1,763 | \$ 1,284 | \$ 1,351 | \$ 1,164 |
| Company contribution | 48 | 47 | 47 | — | — | — |
| Participants' contributions | 156 | 153 | 144 | — | — | — |
| Investment income | 195 | 193 | 216 | 148 | 65 | 101 |
| Unrealized appreciation (depreciation) of investments | 205 | (668) | 516 | 184 | (83) | 129 |
| LESOP interest expense | (45) | (50) | (54) | — | — | — |
| Benefits paid | (209) | (229) | (255) | (55) | (49) | (43) |
| Net assets at end of year | \$ 2,173 | \$ 1,823 | \$ 2,377 | \$ 1,561 | \$ 1,284 | \$ 1,351 |

| Income tax expense (In millions) | 1991 | 1990 | 1989 |
|---|---------------|-------------|-------------|
| Current | | | |
| Federal | \$ 196 | \$ 403 | \$ 431 |
| State and local | 62 | 61 | 84 |
| | 258 | 464 | 515 |
| Deferred | | | |
| Federal | (29) | (193) | (129) |
| State and local | (25) | (16) | (18) |
| | (54) | (209) | (147) |
| Total income tax expense | \$ 204 | \$ 255 | \$ 368 |
| Effective tax rate | 43.5% | 30.6% | 31.5% |

| Reconciliation of tax rates | Amounts (In millions) | | | Per cent of pre-tax income | | |
|---|-----------------------|-------------|-------------|----------------------------|-------------|-------------|
| | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 |
| Federal income tax statutory rate | \$ 159 | \$ 283 | \$ 398 | 34.0 | 34.0 | 34.0 |
| State and local income taxes, less federal income tax benefit | 25 | 29 | 43 | 5.1 | 3.5 | 3.7 |
| Reduction of deferred taxes on installment sales* | — | (52) | (52) | — | (6.3) | (4.4) |
| Interest, net of tax, on prior years' audit adjustments | 21 | — | — | 4.6 | — | — |
| Tax credits and other | (1) | (5) | (21) | (.2) | (.6) | (1.8) |
| Total income tax expense | \$ 204 | \$ 255 | \$ 368 | 43.5 | 30.6 | 31.5 |

*Resulting from payment of taxes on installment sales previously deferred at higher tax rates in the consolidated financial statements. 1990 was the last year of such benefit.

Taxes other than income taxes, over half of which were payroll taxes, totaled \$372 million in 1991, as compared with \$363 million in 1990 and \$353 million in 1989.

Deferred taxes consist principally of accelerated depreciation and accounting for leases.

OTHER BUSINESSES

JCPenney Insurance markets life, health, and credit insurance through direct response. At the end of the year, there were 3.9 million policies and certificates in force, an increase of 14.4 per cent from the 1990 year end. Premiums and net income rose substantially to record levels. JCPenney Life Insurance Company has been rated "A" (excellent) by A.M. Best.

JCPenney National Bank offers Visa and MasterCard credit cards. At the end of the year, about 355 thousand credit cards were active.

JCP Realty, Inc. is engaged in the development and operation of real estate through participation in joint ventures. At year end, JCP Realty had interests in about 70 shopping center projects, all of which were in operation.

| Other revenue (In millions) | 1991 | 1990 | 1989 |
|--|---------------|-------------|-------------|
| Insurance premiums and investment income | \$ 328 | \$ 255 | \$ 197 |
| Bank interest and fees, principally bankcard | 119 | 116 | 105 |
| Total | \$ 447 | \$ 371 | \$ 302 |

| Cost and expenses of other businesses (In millions) | 1991 | 1990 | 1989 |
|---|---------------|-------------|-------------|
| Benefits, claims costs, and expenses of insurance operation | \$ 249 | \$ 200 | \$ 159 |
| Interest expense and bad debts of banking operation | 106 | 100 | 94 |
| Real estate development operation | 4 | 9 | 9 |
| Other | — | — | 17 |
| Total | \$ 359 | \$ 309 | \$ 279 |

| Pre-tax income (loss) of other businesses (In millions) | 1991 | 1990 | 1989 |
|--|-------------|-------------|-------------|
| JCPenney Insurance | \$ 79 | \$ 55 | \$ 38 |
| JCPenney National Bank | 13 | 16 | 11 |
| JCP Realty, Inc. | (4) | (9) | (9) |
| Total | \$ 88 | \$ 62 | \$ 40 |
| Assets of other businesses (In millions) | 1991 | 1990 | 1989 |
| JCPenney Insurance, principally investments | \$ 857 | \$ 764 | \$ 739 |
| JCPenney National Bank, principally bankcard receivables | 600 | 578 | 584 |
| JCP Realty, Inc., investments in real estate joint ventures | 97 | 97 | 90 |
| Total | \$ 1,554 | \$ 1,439 | \$ 1,413 |
| Liabilities of other businesses (In millions) | 1991 | 1990 | 1989 |
| JCPenney Insurance, principally policy and claims reserves | \$ 493 | \$ 436 | \$ 400 |
| JCPenney National Bank, principally certificates of deposit | 549 | 544 | 540 |
| JCP Realty, Inc. | 148 | 133 | 126 |
| Total | \$ 1,190 | \$ 1,113 | \$ 1,066 |

QUARTERLY DATA

| (Unaudited) | First | | | Second | | | Third | | | Fourth | | |
|--|----------|-------|-------|--------|--------|-------|--------|--------|-------|--------|--------|-------|
| (In millions except per share data) | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 | 1991 | 1990 | 1989 |
| Retail sales | \$ 3,433 | 3,530 | 3,341 | 3,456 | 3,580 | 3,438 | 3,937 | 3,995 | 4,061 | 5,375 | 5,260 | 5,263 |
| Per cent increase (decrease) | (2.7) | 5.7 | 5.2 | (3.5) | 4.1 | 7.1 | (1.4) | (1.6) | 12.5 | 2.2 | (0.1) | 8.8 |
| Total revenue | \$ 3,715 | 3,801 | 3,575 | 3,727 | 3,834 | 3,669 | 4,200 | 4,247 | 4,298 | 5,653 | 5,528 | 5,516 |
| Per cent increase (decrease) | (2.3) | 6.3 | 3.5 | (2.8) | 4.5 | 4.8 | (1.1) | (1.2) | 10.9 | 2.3 | 0.2 | 7.9 |
| Gross margin, per cent of retail sales | 34.2 | 35.6 | 36.0 | 32.0 | 33.2 | 33.8 | 33.4 | 34.2 | 35.7 | 32.9 | 30.1 | 34.2 |
| Selling, general, and administrative expenses, per cent of retail sales | 33.8 | 32.5 | 32.2 | 33.6 | 32.8 | 32.4 | 31.1 | 31.9 | 30.2 | 25.6 | 26.6 | 25.9 |
| Income before nonrecurring items and cumulative effect of accounting change | \$ 80 | 154 | 148 | 31 | 83 | 98 | 116 | 134 | 209 | 301 | 206 | 367 |
| Per cent increase (decrease) | (48.3) | 4.1 | 13.0 | (62.6) | (15.2) | 21.2 | (12.9) | (35.8) | 30.5 | 46.0 | (43.9) | 23.8 |
| Income before cumulative effect of accounting change | \$ 80 | 154 | 128 | 31 | 83 | 98 | 116 | 134 | 209 | 37 | 206 | 367 |
| Net income (loss)* | \$ (104) | 154 | 128 | 31 | 83 | 98 | 116 | 134 | 209 | 37 | 206 | 367 |
| Income per share before cumulative effect of accounting change | | | | | | | | | | | | |
| Primary | \$.61 | 1.21 | .97 | .19 | .63 | .74 | .92 | 1.07 | 1.65 | .25 | 1.68 | 2.95 |
| Fully diluted | \$.61 | 1.15 | .93 | .19 | .62 | .72 | .92 | 1.01 | 1.52 | .25 | 1.55 | 2.69 |
| Net income (loss) per common share* | | | | | | | | | | | | |
| Primary | \$ (.97) | 1.21 | .97 | .19 | .63 | .74 | .92 | 1.07 | 1.65 | .25 | 1.68 | 2.95 |
| Fully diluted | \$ (.97) | 1.15 | .93 | .19 | .62 | .72 | .92 | 1.01 | 1.52 | .25 | 1.55 | 2.69 |
| Dividends per common share | \$.66 | .66 | .56 | .66 | .66 | .56 | .66 | .66 | .56 | .66 | .66 | .56 |
| Common stock price range | | | | | | | | | | | | |
| High | \$ 56 | 70 | 56 | 58 | 67 | 60 | 53 | 58 | 69 | 57 | 48 | 75 |
| Low | \$ 48 | 63 | 51 | 48 | 58 | 55 | 48 | 38 | 60 | 47 | 40 | 64 |

*1991 restated to reflect the adoption of SFAS No. 106.

FIVE YEAR FINANCIAL SUMMARY

(In millions except per share data)

J.C. Penney Company, Inc. and Subsidiaries

| | 1991 | 1990 | 1989 | 1988 | 1987 |
|--|-----------|--------|--------|--------|--------|
| Results for the year | | | | | |
| Total revenue | \$ 17,295 | 17,410 | 17,058 | 15,945 | 16,423 |
| Retail sales | \$ 16,201 | 16,365 | 16,103 | 14,833 | 15,332 |
| Per cent increase (decrease) | (1.0) | 1.6 | 8.6 | (3.3) | 4.0 |
| FIFO gross margin, per cent of retail sales | 32.5 | 33.3 | 34.5 | 35.3 | 34.1 |
| Selling, general, and administrative expenses, per cent of retail sales | 30.4 | 30.6 | 29.7 | 30.1 | 28.8 |
| Interest expense, net, per cent of retail sales | 1.9 | 1.8 | 1.9 | 2.1 | 2.0 |
| Depreciation and amortization | \$ 314 | 299 | 275 | 258 | 241 |
| Income before income taxes, nonrecurring items, and cumulative effect of accounting change | \$ 863 | 832 | 1,202 | 970 | 1,151 |
| Per cent of total revenue | 5.0 | 4.8 | 7.0 | 6.1 | 7.0 |
| Income before nonrecurring items and cumulative effect of accounting change | \$ 528 | 577 | 822 | 668 | 706 |
| Per cent increase (decrease) from prior year | (8.5) | (29.8) | 23.0 | (5.4) | 33.2 |
| Per cent of stockholders' equity | 12.0 | 13.3 | 20.8 | 16.0 | 16.3 |
| Income taxes | \$ 204 | 255 | 368 | 385 | 371 |
| Income before cumulative effect of accounting change | \$ 264 | 577 | 802 | 807 | 608 |
| Net income | \$ 80 | 577 | 802 | 807 | 608 |
| Earnings per common share | | | | | |
| Primary | | | | | |
| Before nonrecurring items and cumulative effect of accounting change | \$ 4.23 | 4.59 | 6.47 | 4.96 | 4.77 |
| Before cumulative effect of accounting change | \$ 1.97 | 4.59 | 6.31 | 6.02 | 4.11 |
| Net income | \$.39 | 4.59 | 6.31 | 6.02 | 4.11 |
| Fully diluted | | | | | |
| Before nonrecurring items and cumulative effect of accounting change | \$ 4.00 | 4.33 | 6.01 | 4.90 | 4.77 |
| Before cumulative effect of accounting change | \$ 1.97 | 4.33 | 5.86 | 5.92 | 4.11 |
| Net income | \$.39 | 4.33 | 5.86 | 5.92 | 4.11 |
| Per common share | | | | | |
| Dividends | \$ 2.64 | 2.64 | 2.24 | 2.00 | 1.48 |
| Stockholders' equity | \$ 34.65 | 36.75 | 35.62 | 32.04 | 30.15 |
| Financial position | | | | | |
| Receivables, net | \$ 3,525 | 3,720 | 4,281 | 4,179 | 4,494 |
| Merchandise inventories | \$ 2,897 | 2,657 | 2,613 | 2,201 | 2,350 |
| Properties, net | \$ 3,602 | 3,500 | 3,237 | 3,034 | 2,910 |
| Capital expenditures | \$ 505 | 599 | 519 | 487 | 376 |
| Total assets | \$ 12,520 | 12,325 | 12,698 | 12,254 | 11,734 |
| Total debt | \$ 4,062 | 4,114 | 4,207 | 4,064 | 3,563 |
| Stockholders' equity | \$ 4,188 | 4,394 | 4,353 | 3,957 | 4,173 |
| Number of common shares outstanding at year end | | | | | |
| | 117 | 117 | 120 | 123 | 138 |
| Weighted average common shares | | | | | |
| Primary | 117 | 118 | 122 | 131 | 148 |
| Fully diluted | 128 | 130 | 134 | 136 | 148 |
| Number of employees at year end (In thousands) | | | | | |
| | 185 | 196 | 198 | 190 | 181 |

FIVE YEAR OPERATIONS SUMMARY

J.C. Penney Company,
Inc. and Subsidiaries

| | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|------------------|--------|--------|--------|--------|
| JCPenney stores | | | | | |
| Number of stores | | | | | |
| Beginning of year | 1,312 | 1,328 | 1,355 | 1,378 | 1,403 |
| Openings | 38 | 46 | 38 | 43 | 32 |
| Closings | (67) | (62) | (65) | (66) | (57) |
| End of year | 1,283 | 1,312 | 1,328 | 1,355 | 1,378 |
| Gross selling space (In million sq. ft.) | 114.5 | 114.4 | 112.8 | 113.3 | 113.6 |
| Sales (In millions) | \$ 14,277 | 14,616 | 14,469 | 13,364 | 13,428 |
| Sales per gross square foot* | \$ 125 | 127 | 127 | 117 | 117 |
| Catalog | | | | | |
| Number of catalog units | | | | | |
| JCPenney stores | 1,283 | 1,312 | 1,328 | 1,355 | 1,378 |
| Freestanding sales centers and merchants | 697 | 626 | 501 | 392 | 325 |
| Drug stores | 134 | 136 | 126 | 117 | 120 |
| Other, principally outlet stores | 16 | 16 | 16 | 15 | 14 |
| Total | 2,130 | 2,090 | 1,971 | 1,879 | 1,837 |
| Number of distribution centers | 6 | 6 | 6 | 6 | 6 |
| Distribution space (In million sq. ft.) | 11.4 | 11.4 | 11.4 | 11.4 | 11.4 |
| Sales (In millions) | \$ 3,002 | 3,220 | 3,205 | 2,918 | 2,585 |
| Drug stores | | | | | |
| Number of stores | | | | | |
| Beginning of year | 487 | 471 | 434 | 407 | 390 |
| Openings | 46 | 22 | 39 | 34 | 21 |
| Closings | (3) | (6) | (2) | (7) | (4) |
| End of year | 530 | 487 | 471 | 434 | 407 |
| Gross selling space (In million sq. ft.) | 5.0 | 4.8 | 4.7 | 4.4 | 4.2 |
| Sales (In millions) | \$ 1,282 | 1,196 | 1,088 | 976 | 875 |
| Sales per gross square foot* | \$ 271 | 258 | 250 | 236 | 215 |

Catalog sales made through JCPenney stores and drug stores are included in the sales of those stores as well as in catalog.

**Includes stores in operation throughout the entire fiscal year.*

PUBLIC AFFAIRS

The Company continued to reinforce its commitment to the health and vitality of the communities in which it does business through charitable contributions, community service programs, and minority supplier development.

Charitable contributions. During 1991, charitable contributions were \$19 million Company-wide. Health and welfare issues, including the Company's contribution to more than 1,000 United Way organizations, represented 39 per cent of total contributions. In addition to the Company's contributions, Penney associates (employees) pledged \$7.6 million to local United Ways during the Company campaign. Support of pre-school, kindergarten through grade 12, and higher education followed with more than 17 per cent of total contributions. Included was a major project with the Fort Worth, Texas School District, which focused on bringing school based management into the classroom.

Community service. The Company continued to promote community service and volunteerism through the JCPenney Golden Rule Award program, which recognizes community volunteers in 150 JCPenney markets. The James Cash Penney Award program provides similar recognition to associates as well. The two programs contributed approximately \$1.2 million to local charitable organizations.

Minority suppliers. JCPenney has had an active Minority Supplier Development Program since 1972. During 1991, purchases from minority-owned businesses totaled over \$360 million representing relationships with 2,080 businesses. In addition to the purchasing of products and services, the Company had relationships with 39 minority-owned banks.

Also, through an annual awards program, the Company, in 1991, recognized eight associates and ten minority-owned businesses for their contributions to the Minority Supplier Development Program.

Environmental affairs. JCPenney is committed to doing business in an environmentally responsible manner. At the center of this commitment stands a determination to make environmental considerations a part of corporate decision making and policy.

Leadership for this effort comes from an Environmental Affairs Committee composed of seven senior managers. Under their direction, the Company continuously assesses its operations to assure that all, to the fullest extent feasible, preserve and improve the environment and protect the health and safety of associates, customers, and communities where JCPenney does business.

Significant progress has been made towards these goals, especially in recycling. For example, JCPenney is using recycled stock for all gift, apparel, and jewelry boxes. In addition, stores are recycling most of the corrugated cardboard boxes in which merchandise shipments are received. The Company also continues to explore sources of high-quality, reasonably priced recycled stock for its advertising supplements, catalogs, and other printed matter.

An office paper recycling program was launched in retail stores, while similar programs continued in the headquarters and other facilities. State and local officials have recognized one such program, developed by associates at the Manchester, Connecticut, Catalog Distribution Center, as a model for other businesses. Plans call for a comprehensive, state-of-the-art recycling program in the Company's new headquarters in Plano, Texas.

Finally, in 1991, the Company established formal guidelines for evaluating and substantiating environmental themes and claims proposed for merchandise, packaging, labeling, and promotions.

Equal employment opportunity. The Company adheres to a policy of equal employment opportunity. The following employment information summary represents associates of J.C. Penney Company, Inc. and wholly-owned subsidiaries, excluding facilities in Puerto Rico. The information provided delineates minority and female representation in major job categories.

| Employment information | Total employed | | Per cent female | | Per cent minority | |
|--|----------------|---------|-----------------|------|-------------------|------|
| | 1991 | 1987 | 1991 | 1987 | 1991 | 1987 |
| Officials, managers, and professionals | 19,173 | 18,387 | 45.3 | 38.7 | 11.0 | 9.6 |
| Management trainees | 496 | 1,328 | 67.9 | 57.7 | 21.0 | 17.0 |
| Sales workers | 94,479 | 92,950 | 87.6 | 87.0 | 17.0 | 14.7 |
| Office and clerical workers | 31,086 | 29,576 | 89.5 | 90.2 | 16.2 | 17.6 |
| Technicians, craft workers, and operatives | 25,739 | 24,354 | 85.3 | 82.3 | 20.2 | 18.0 |
| Laborers and service workers | 12,514 | 13,517 | 46.1 | 42.2 | 24.6 | 23.4 |
| Total | 183,487 | 180,112 | 80.3 | 78.6 | 17.2 | 15.8 |

The Company is aware that many of its stockholders have become increasingly interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders, and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney.

Independent Board of Directors. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. All but two directors have principal occupations or employment outside of the Company. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allow the Board to most effectively represent the interests of all the Company's stockholders.

Independent committees. The principal standing committees of the Board of Directors are composed entirely of directors who are not employees of the Company. These committees include the Audit Committee, Benefit Plans Review Committee, Committee on Directors, Personnel and Compensation Committee, and the Public Affairs Committee. These committees, as well as the entire Board, consult with and are advised by outside consultants and experts in connection with their deliberations as needed.

Executive compensation. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the annual and long-term sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to page 16 of the Company's 1992 Proxy Statement for a more detailed description of how incentive compensation payment determinations are made.

Confidential voting. The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations which identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, which receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, or employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

BOARD OF DIRECTORS

M. Anthony Burns^{1,4,5}

Chairman, President and Chief Executive Officer, Ryder System, Inc.

Colby H. Chandler^{3,4}

Formerly Chairman and Chief Executive Officer, Eastman Kodak Company

William M. Ellinghaus^{1,4}

Formerly President, American Telephone and Telegraph Company

Clifton C. Garvin, Jr.^{1,2}

Formerly Chairman and Chief Executive Officer, Exxon Corporation

Robert B. Gill

Vice Chairman of the Board and Chief Operating Officer, JCPenney Stores and Catalog

William R. Howell

Chairman of the Board and Chief Executive Officer

Vernon E. Jordan, Jr.^{2,3,4}

Partner, Law Firm of Akin, Gump, Hauer & Feld

George Nigh^{2,3,4}

Formerly Governor of Oklahoma

Jane C. Pfeiffer^{3,4,5}

Independent Management Consultant

A. Kenneth Pye^{1,2}

President, Southern Methodist University

Charles S. Sanford, Jr.

Chairman Bankers Trust New York Corporation and Bankers Trust Company

Joseph D. Williams^{1,2,5}

Formerly Chairman and Chief Executive Officer, Warner-Lambert Company

Boris Yavitz^{1,2,5}

Paul Garrett Professor of Public Policy and Business Responsibility and Former Dean, Graduate School of Business, Columbia University

OFFICE OF THE CHAIRMAN

William R. Howell

Chairman of the Board and Chief Executive Officer

Robert B. Gill

Vice Chairman of the Board and Chief Operating Officer, JCPenney Stores and Catalog

JCPENNEY STORES

James E. Oesterreicher

Executive Vice President
Director of JCPenney Stores

W. Barger Tygart

Executive Vice President
Director of Merchandising

Gale Duff-Bloom

Senior Vice President
Associate Director of Merchandising

Charles W. Stewart

Vice President
Director of Strategic Development, Operations, and Services

Gary L. Davis

President
Northwestern Region

William J. Ferguson

President
Southwestern Region

R.H. Seaman

President
Southeastern Region

Richard C. Sherwood

President
Northeastern Region

James L. Hailey

President
Women's Division

Thomas D. Hutchens

President
Men's Division

James J. Kennedy

President
Home and Leisure Division

Henry H. Scott

President
Children's Division

J. Thomas Arthur

Vice President
Director of Merchandising,
Home and Leisure Division

Marshall Beere

Vice President
Director of Merchandising,
Women's Division

Andrew Cumming

Vice President
Director of Merchandising,
Children's Division

Marilee J. Cumming

Vice President
Director of Merchandising,
Women's Division

David E. Fulcomer

Vice President
Director of Merchandising,
Men's Division

Ralph W. LaRovere

Vice President
Director of Merchandising,
Home and Leisure Division

J. Raymond Pierce

Vice President
Director of Merchandising,
Men's Division

Kenneth T. Russo

Vice President
Director of International Sourcing

Joseph P. Sapienza

Vice President
Director of Merchandise Development,
Men's Division

Donald F. Scaccia

Vice President
Director of Merchandise Development,
Women's Division

Gerald L. Shores

Vice President
Director of Merchandising,
Women's Division

N. Tice Siegel, Jr.

Vice President
Director of Merchandising,
Children's Division

CATALOG

William E. McCarthy

President

Julius L. Debbs

Vice President
Director of Merchandising

Peter G. Fenlon

Vice President
Director of Sales and Operations

William J. Kelly

Vice President
Director of Advertising
and Publications

CORPORATE

Richard T. Erickson

Executive Vice President
Director of Corporate Personnel
and Administration

Robert E. Northam

Executive Vice President
Chief Financial Officer

Terry S. Prindiville

Executive Vice President
Director of Support Services

John T. Cody, Jr.

Senior Vice President
Director of Real Estate, Construction
Services, and Specialty Retailing

Charles R. Lotter

Senior Vice President
Secretary and General Counsel

Ted L. Spurlock

Senior Vice President
Director of Credit and
Financial Services

Charles L. Brown

Vice President
Director of Auditing

James P. Bryant

Vice President
Director of Corporate Taxes

David V. Evans

Vice President
Director of Information Systems

Leo A. Gispanski

Vice President
Controller

Anton C. Haake

Vice President
Director of Quality Assurance

Edward T. Howard

Vice President
Director of Investor Relations

Russell H. Longyear

Vice President
Director of Communications

N. Michael Lowenkron

Vice President
Director of Real Estate Operations

Donald A. McKay

Vice President
Treasurer

M. Christopher Sears

Vice President
Director of Public Affairs and
Executive Assistant to the Chairman

Michael Todres

Vice President
Director of Distribution and
Non-Resale Purchasing

ASSISTANT CONTROLLER

William J. Alcorn

ASSISTANT SECRETARIES

Frank J. Bonet

Thomas M. Comerford

Cornelius T. Dorans

John V. Faltermeier

Alfred O. Goellner

Margaret R. Johnson

Richard M. Kleid

Eugene P. McGreal

ASSISTANT TREASURERS

Robert B. Cavanaugh

Stephen F. Walsh

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's financial statements. The committee also reviews the audit plans, scope, fees, and audit results of the auditors; internal audit reports on the adequacy of internal accounting controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.
 2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.
 3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.
 4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee which acts under certain of the Company's incentive compensation and retirement plans.
 5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans.
- All of the committees described above are composed entirely of outside directors.*

ANNUAL MEETING

Our Annual Meeting of Stockholders will be held at 11 a.m., Thursday, May 14, at the Kemmerer Senior High School Auditorium, 1525 West 3rd Avenue, Kemmerer, Wyoming. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 6, 1992.

SUPPLEMENTAL INFORMATION

Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for 1991
- JCPenney Minority Business Opportunities, a handbook to minority suppliers
- Partners: JCPenney and Its Communities, the Company's social responsibility report
- JCPenney's Special Report on Its Environmental Responsibility

Requests for the above should be addressed to:

Ms. Nancee F. Dixon
Public Relations Department
J.C. Penney Company, Inc.
P.O. Box 659000
Dallas, Texas 75265-9000
(214) 591-1488

Copies of J.C. Penney Funding Corporation's Annual Report are available from:

Ms. Donna R. Graebner
J.C. Penney Funding Corporation
P.O. Box 227472
Dallas, Texas 75222-7472
(214) 591-2020

Inquiries about your Company's Dividend Reinvestment Plan or your stockholder record should be forwarded to:

Manufacturers Hanover Trust Company
Securityholder Relations Department
P.O. Box 24935
Church Street Station
New York, New York 10249
1-800-842-9470
Monday-Friday, 8:00 a.m.-8:00 p.m.
Eastern Time

EXCHANGE LISTINGS

The New York Stock Exchange
(Ticker symbol — JCP)

Brussels and Antwerp
Stock Exchanges

REGISTRAR/TRANSFER AGENT

Manufacturers Hanover Trust Company
450 West 33rd Street
New York, New York 10001

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J.C. Penney Company, Inc.
14841 North Dallas Parkway, Dallas, Texas 75240-6760